

SETTING STANDARDS FOR YOUR BUSINESS

By

Charles H. Ingraham^{1/}
David Randall^{2/}

Once the executive is clear on the key performance areas in his business, he must determine what level of performance he wants in each of those areas. In other words, he must set standards.

We can define a standard as a concept of what is to be achieved. It should be reasonable and attainable.

By establishing a standard, you are more likely to achieve the result you want than if you operate on a basis that urges you to "get going" and get there as fast as you can.

Some aids in setting these standards are:

(1) Past experience can be quite helpful in standard setting. After a review of past experience, we can apply our conclusion to future situations and try to establish a standard that will pass the test of attainability, durability, clarity, acceptability and progress.

(2) Many of the statistical facts generated by government, industry, educational institutions and others can assist in setting sound standards. They must, however, be studied and interpreted in light of the circumstances to which they apply.

(3) There are many trend curves that can be helpful to certain businesses when setting standards or projections. An example is the increase in the population curve.

(4) When no experience, statistical data, or trend figures are available to guide the standard setter, it may be necessary for him to conduct, or direct others to conduct, special studies for him to analyze and study the present and past situation.

(5) Good judgment is an immeasurable, intangible, human faculty that seems to emerge with experience in making decisions. People who develop good judgment become the balance wheels in organizations. They have the ability to consider the important factors of a situation and render detached judgments about them.

^{1/} Charles H. Ingraham, Extension Economist, Business Management, Ohio State University, Dept. of Agricultural Economics and Rural Sociology.

^{2/} David Randall, Student, Ohio State University, Dept. of Agricultural Economics and Rural Sociology.

Most of the standard setting in business is done in measurable areas such as finance or production or operations. We can measure money to the cent and production to the unit. This means that in analyzing these activities we can apply mathematical methods that provide statistics upon which standards can be based.

However, there are many areas that are non-measurable in any mathematical sense because they have to do with the human factor. In these areas judgment must be used in setting standards. Example of this is - how do you evaluate the performance of an employee, the effectiveness of a public relations program, of current sales, or how much do you get from your training activities.

Just what kinds of standards are there? The following are only a few of the many types of standards in common use:

- (1) Specific budget figures having to do with labor, materials and expenses.
- (2) The quotas given to salesmen.
- (3) In farming, the number of bushels of grain or pounds of milk farmers want to produce.
- (4) In the electric utility field, the anticipated sale of kilowatts, acceptable line loss, number of customers to be served, or kinds of serves to be furnished.
- (5) In construction contracting, completion dates, specifications for work, the dollar limit of appropriations.
- (6) In safety engineering, the acceptable degree and extent of exposures to various hazards.

As a matter of fact, every manager who directs the activities of others has standards of performance in mind whether or not they are in written form. He thinks in terms of the acceptable time required to perform a job, the dollars that should be spent on a project, the units that should be produced, or the results that should be attained under given conditions.

A manager becomes a better one as he understands the purpose and value of standards, refines the ones he has, develops standards where they are lacking, and uses them as vital elements in his job of managing.